LEGISLATIVE SERVICES AGENCY
Serving the Iowa Legislature

Fiscal Note

Fiscal Services Division

HF 672 – Wind Production Tax Credits (LSB 2705HZ.2)
Analyst: Jeff Robinson (Phone: 515-281-4614) (jeff.robinson@legis.state.ia.us)
Fiscal Note Version – As amended and passed by the Senate (**H-1706**)

Description

House File 672, as amended and passed by the Senate (**H-1706**), relates to Iowa's wind energy production tax incentives. The Bill:

- Reduces the total capacity limit on projects approved for the 1.0 cent per kilowatt-hour tax credit under Chapter 476B from 150 megawatts to 50 megawatts.
- Increases the total current capacity limit on projects approved for the 1.5 cents per kilowatt-hour wind energy production tax credit (Iowa Code Chapter 476C) from 330 megawatts to 363 megawatts.
- Increases the new 363 megawatt limit by 15 megawatts per year, beginning CY 2015 and ending with CY 2020. The maximum limit in CY 2020 would equal 453 megawatts.
- Increases the maximum energy production capacity for energy conversion facilitates other than wind from 20 megawatts to 53 megawatts. These types of projects are also allowed a 1.5 cents per kilowatt-hour production tax credit.
- Increases the new 53 megawatt limit by 5 megawatts per year, beginning CY 2015 and ending with CY 2020. The maximum limit in CY 2020 would equal 83 megawatts.
- Reserves 10 megawatts of the non-wind energy conversion facility megawatts for projects associated with an ethanol cogeneration plant.
- Extends the date by which facilities qualifying under Chapter 476C must be placed in service to January 1, 2021.
- Extends project completion deadlines for approved projects.

The Bill is effective July 1, 2011.

Background

The 1.0 cent per kilowatt-hour tax credit under Chapter 476B was created in SF 2298 (Appropriations and Miscellaneous Changes Act of 2004) and the 1.5 cents per kilowatt-hour tax credit found in Chapter 476C was created in SF 390 (Renewable Energy Tax Credits Act of 2005).

Chapter 476B is available for projects with a capacity of 2 megawatts or more. Projects are no longer required to forgo existing property and sales tax benefits (see Code Sections 427B.26 and 423.3(54)) to receive the 1.0 cent production tax credit. Owners are limited to no more than two qualified projects. The total capacity of all approved projects cannot exceed 150 megawatts. A project must be placed in service before July 1, 2012, to qualify for the income tax credit. Through March 1, 2011, a total of 25.5 megawatts of capacity has been approved for 476B participation.

Chapter 476C is designed for smaller projects. Projects are not required to forgo other property and sales tax benefits and the production tax credit is equal to 1.5 cents per kilowatt-hour. The total capacity of all approved projects cannot exceed 330 megawatts. Projects must be placed in service by January 1, 2012. The Chapter 476C program has approved projects equal to the current limit and also has a waiting list. The full list exceeds the current 330 megawatt limit by 45 megawatts.

Chapter 476C also allows up to 20 megawatts of other types of energy production facilities. Projects are not required to forgo other property and sales tax benefits and the production tax credit is equal to 1.5 cents per kilowatt-hour. Projects must be placed in service by January 1, 2012. The Chapter 476C program has approved projects equal to the current limit and also has a waiting list. The full list exceeds the current 20 megawatt limit by 2.4 megawatts.

The Utilities Board of the Department of Commerce administers both programs and the Department of Revenue administers the tax credits.

<u>Assumptions</u>

Chapter 476B: Chapter 476B project participation will not exceed 50 megawatts prior to the existing deadline (July 1, 2012). Therefore, reducing the current 150 megawatt program limit to 50 megawatts will not reduce tax credit redemptions and will not result in a reduction in tax credit redemptions compared to current law.

Chapter 476C Wind:
- Sufficient projects have been approved to utilize the existing 330 megawatt limit of Chapter 476C projects.
- If the existing limit is increased to 363 megawatts as proposed in the Bill, sufficient demand exists to utilize the higher limit and the additional 33 megawatts will come on line:
  - Year 1 = 20 megawatts
  - Year 2 = 8 megawatts
  - Year 3 = 5 megawatts
- The average capacity factor will equal 31.0%.
- Once earned, tax credits will be redeemed:
  - Initial year = 60.0%
  - Second year = 30.0%
  - Third year = 10.0%

Chapter 476C Future Wind Projects:
- Sufficient demand will exist in calendar years 2015 through 2020 to fully utilize the 90 megawatts of new production authorized.
- The average capacity factor will equal 38.0%.
- Once earned, tax credits will be redeemed:
  - Initial year = 60.0%
  - Second year = 30.0%
  - Third year = 10.0%

Chapter 476C Nonwind:
- Sufficient demand exists to claim the additional 33 megawatts of nonwind Chapter 476C capacity and that capacity will come on line:
  - Year 1 =   5 megawatts
  - Year 2 = 15 megawatts
  - Year 3 = 13 megawatts
- The additional 33 megawatts includes 10 megawatts reserved for ethanol plant cogeneration.
- The average capacity factor for all projects will equal 80.0%.
- Once earned, tax credits will be redeemed:

- Initial year = 60.0%
- Second year = 30.0%
- Third year = 10.0%

Chapter 476C Future Nonwind Projects:

- Sufficient demand will exist in calendar years 2015 through 2020 to fully utilize the 30 megawatts of new production authorized.
- The average capacity factor will equal 85.0%.
- Once earned, tax credits will be redeemed:
  - Initial year = 60.0%
  - Second year = 30.0%
  - Third year = 10.0%

Fiscal Impact

476B Limit Decrease: Decreasing the maximum capacity eligible for Chapter 476C credits will not have a fiscal impact to the State General Fund since tax credits associated with the reduced megawatt limit will not be utilized under existing law. They will not be utilized because there is insufficient demand.

476C New Projects Impact: Increasing the maximum capacity eligible for Chapter 476C credits will have a fiscal impact since more tax credits will be issued and redeemed than under current law.

Net State General Fund Revenue Reduction: The following table shows the projected net State General Fund revenue reduction associated with the changes in Chapter 476C. The impact across all fiscal years is estimated to be $127.0 million.

Revenue Impact – Tax Credit Redemptions
186 Megawatts of New 476C Tax Credits
Dollars in millions

FY 2012	$ 0.0	FY 2020	$ 9.4	FY 2027	$ 7.1
FY 2013	0.8	FY 2021	10.7	FY 2028	5.9
FY 2014	2.3	FY 2022	12.0	FY 2029	4.6
FY 2015	4.0	FY 2023	11.7	FY 2030	3.3
FY 2016	4.7	FY 2024	10.3	FY 2031	2.0
FY 2017	5.6	FY 2025	8.7	FY 2032	0.7
FY 2018	6.8	FY 2026	8.0	FY 2033	0.1
FY 2019	8.1				

Total Fiscal Impact = $127.0 million

By category of additional tax credits, the $127.0 million is distributed as follows:

- Additional wind generation = $13.5 million
- Additional nonwind generation, including 10MW ethanol plant allocation = $34.7 million
- Additional wind generation starting CY 2015 = $45.3 million
- Additional nonwind generation starting CY 2015 = $33.5 million

Chapter 476C tax credits are not refundable, but they are fully transferable. The tax credits may be redeemed through several types of State tax returns, including individual income tax returns. Nonrefundable income tax credits redeemed through individual income tax returns negatively impact the Local Option Income Surtax for Schools. For every $1.0 million of non-refundable tax credits redeemed through individual income tax returns, Local Option Income Surtax for Schools revenue is reduced by approximately $30,000.

Sources

Legislative Services Agency Analysis
Iowa Utilities Board
Iowa Department of Revenue
Natural Resources Defense Council

/s/ Holly M. Lyons

May 5, 2011

The fiscal note for this bill was prepared pursuant to **Joint Rule 17** and the correctional and minority impact statements were prepared pursuant to Code **Section 2.56**. Data used in developing this fiscal note is available from the Fiscal Services Division of the Legislative Services Agency upon request.